



KUMHO  
PETROCHEMICAL 

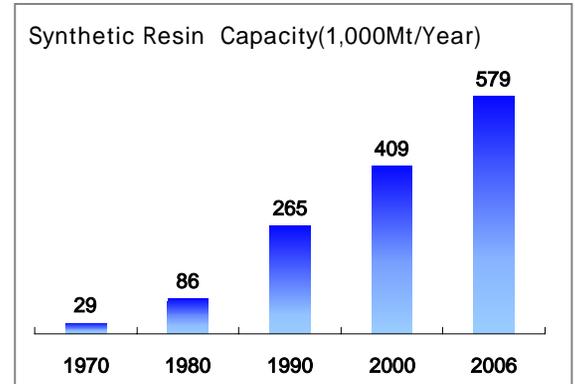
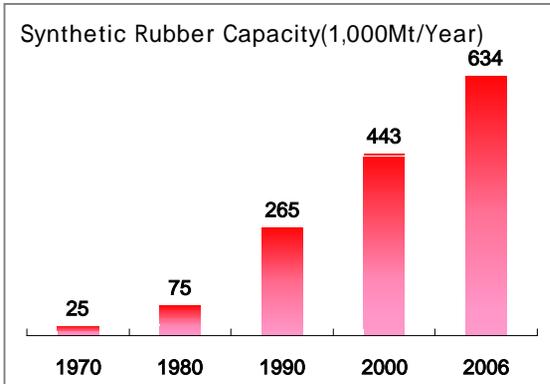
This document is provided for investors while the operating Results presented herewith have not yet received a complete and full review by external auditor, which may be subject to Change in the course of further process.

1. Introduction of KKPC
2. 1H, 2006 results
3. 2006 Plans
4. Appendix

# Overview & History

## Overview

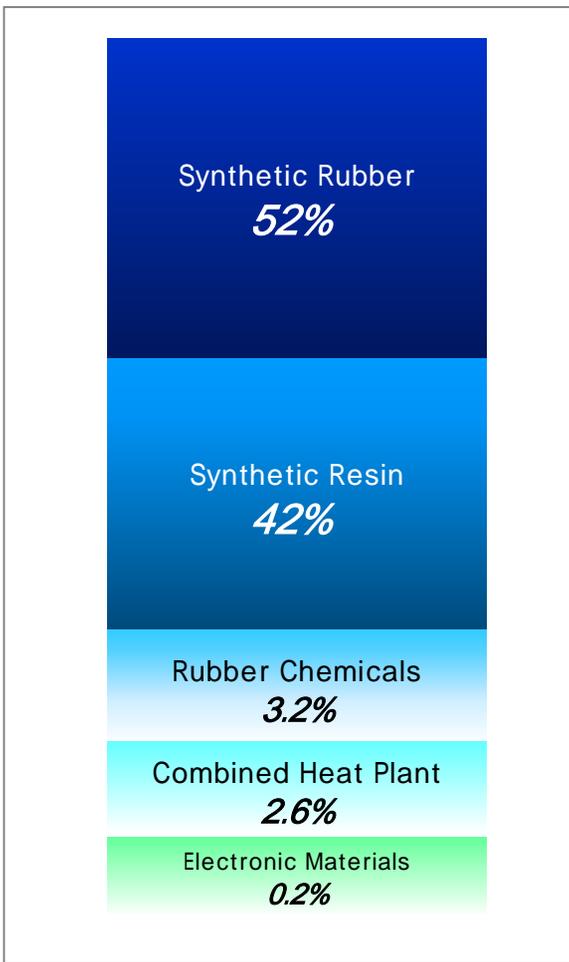
Established	Dec. 28, 1970
IPO	Dec 21, 1987
Paid-in Capital	W142.2b
Employees	930



## History

1970s	1980s	1990s	2000s
1970 Established 1973 Ulsan Plant Start	1980 Yeosu Plant Start 1987 IPO	1997 CHP Stat 1998 Electronic materials launched	Restructuring & Business rationalization Stabilization Financial Structure A fresh start

# Business Portfolio



\* Sales (2005]

## Synthetic rubber

- SBR, HBR, NBR, Latex, SBS, ETC
- World's 3th Production capacity[in SBR & HBR]
- Production Capacity : 634,000Mt/Year

## Synthetic resin

- ABS,PS,EPS,PPG
- Production Capacity : 579,000Mt/Year

## Combined heat plant

- Steam & Electricity
- Self consumption & sale to Neighboring Companies
- Production Capacity : 630 Mt/Hr, 36MWH/Hr

## Rubber chemicals

- Antioxidants and Vulcanization Accelerators
- Korea's No 1 in M/S[70%]
- Production Capacity : 26,200Mt/Year

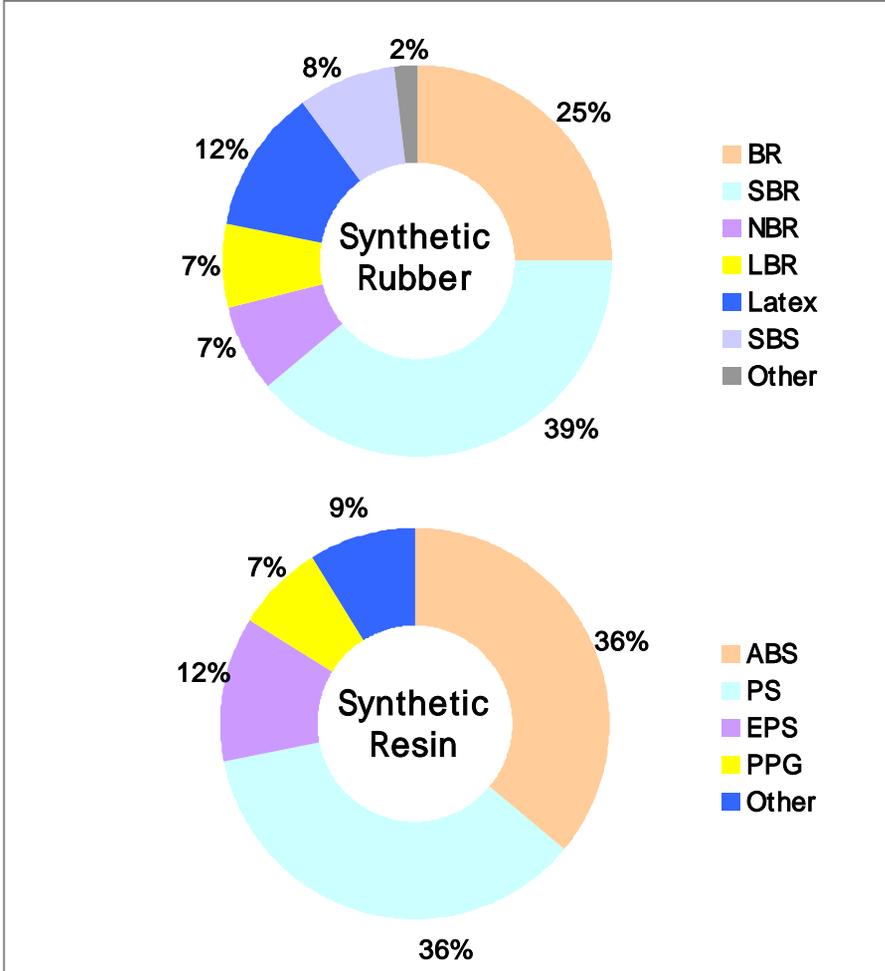
## Electronic Materials

- Developer & Stripper used in manufacturing LCD
- Next Generation photo-resist for semiconductor
- Production Capacity : 2,000Mt/Year

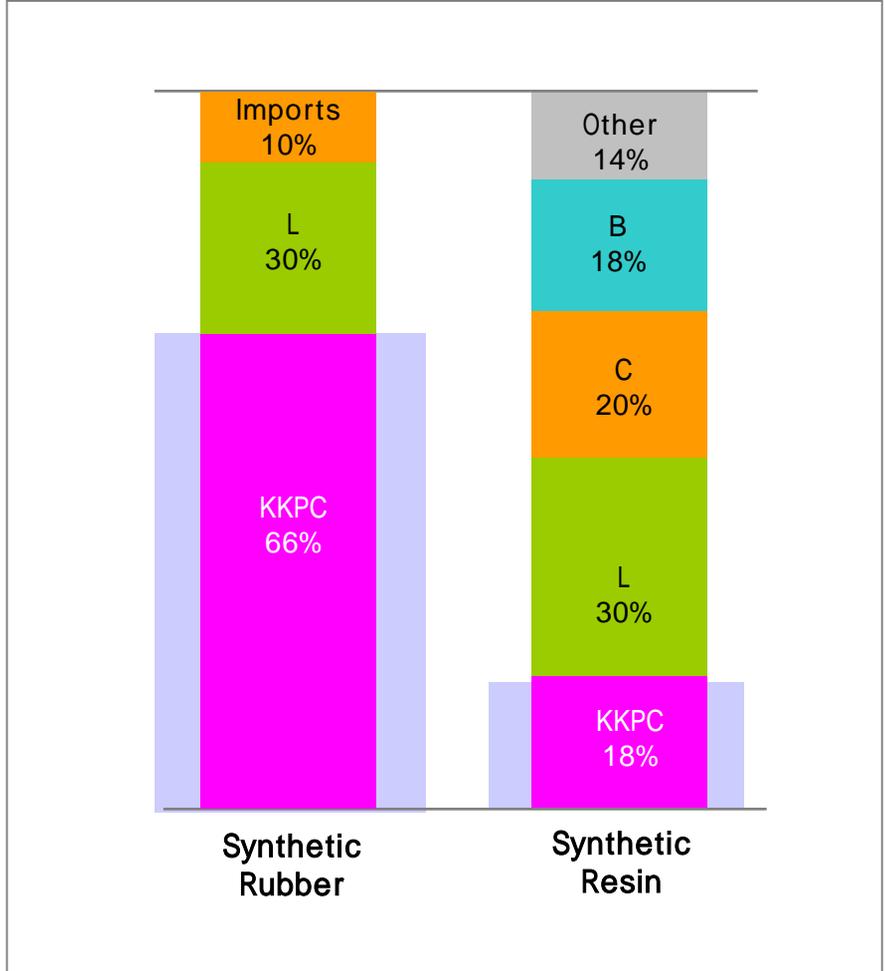


# Market Position

 Sales breakdown by product

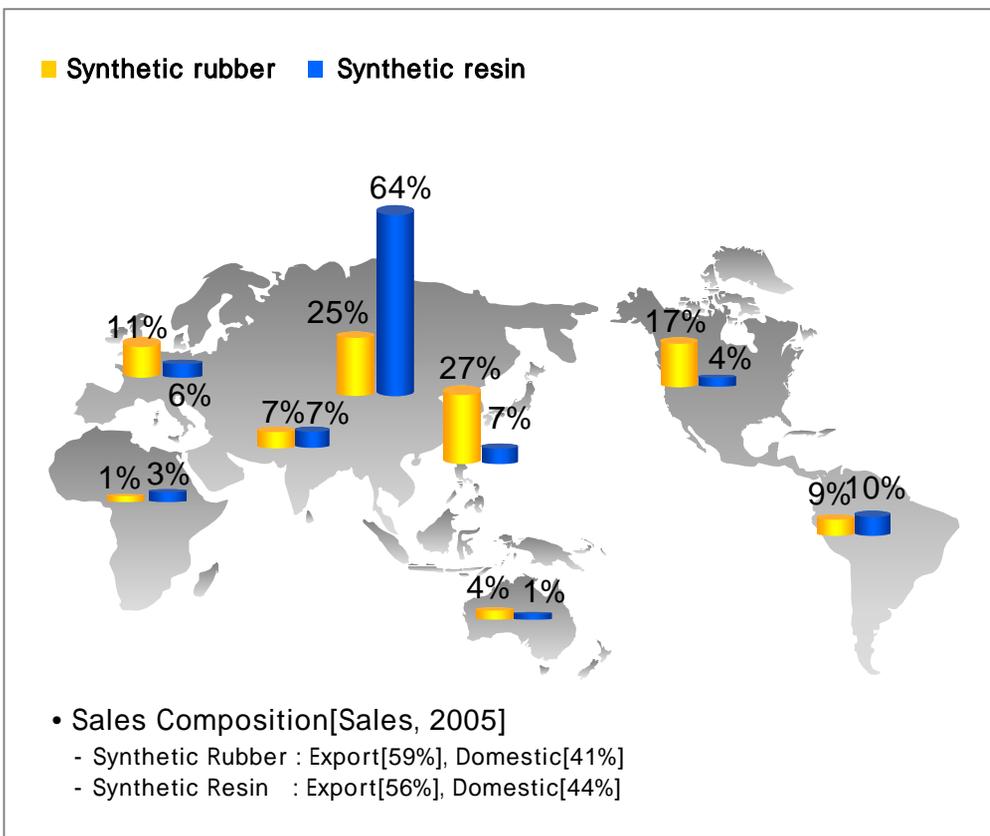


 M/S by company

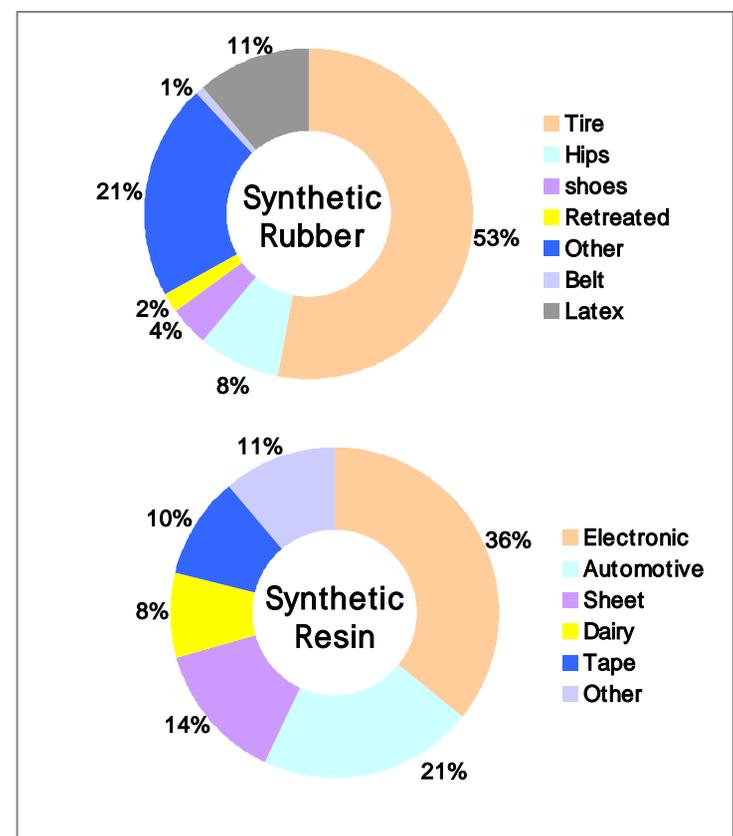


# Market Position

## Operational network for each business sector[Export]

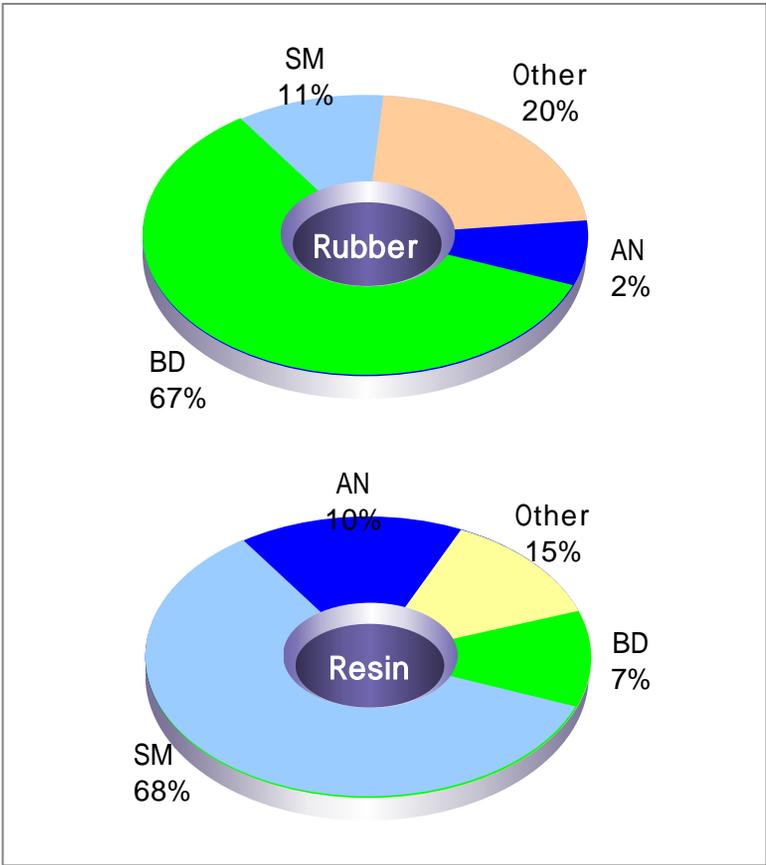


## Sales breakdown by application

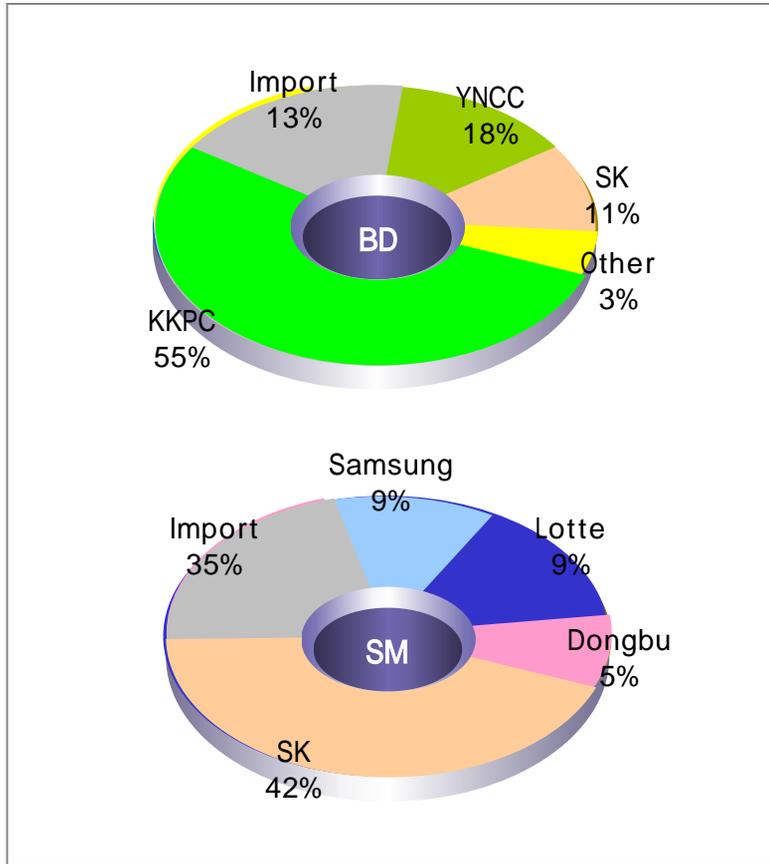


# Main Feedstock

 Feedstock Portion

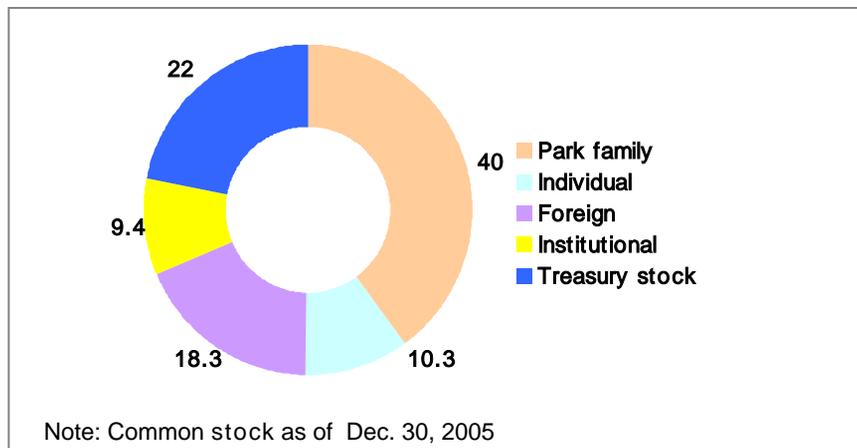


 Purchase companies of Feedstock



# Shareholding Structure

## Shareholding Structure



## Shareholding Structure

	Shares	Price*	Market Cap	Capital (paid in)
Common	25,424,447	23,400	W594.9b	W127.1b
Preferred	3,023,486	11,550	W34.9b	W15.1b
<b>Total</b>	<b>28,023,486</b>		<b>W629.8b</b>	<b>W142.2b</b>

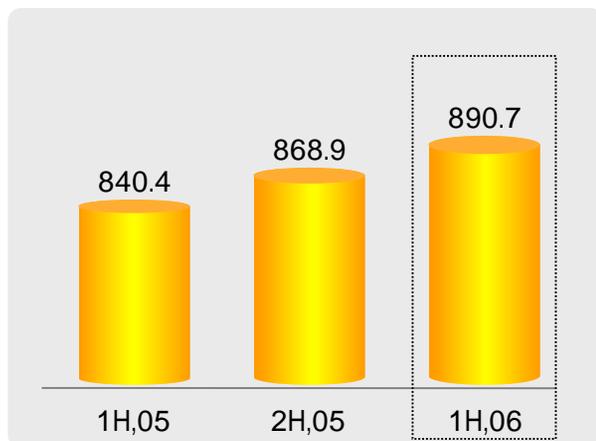
Note  
\* : Market Price on July 31, 2006

## Ownership Structure [%]

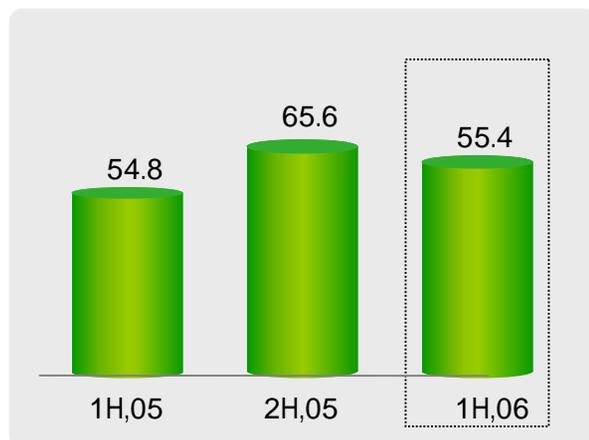


# 1H, 2006 Results [summary]

## Sales [Unit : KRW billion.]



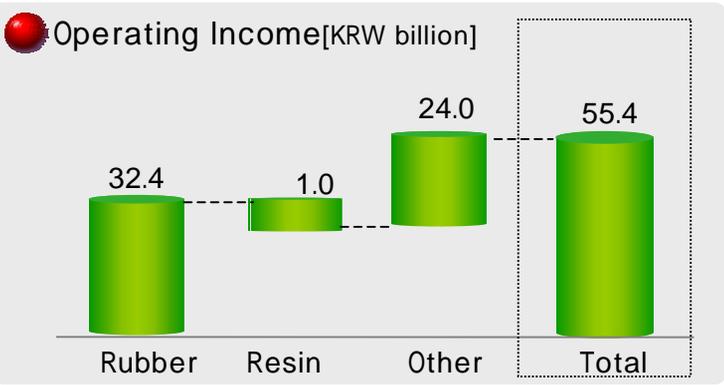
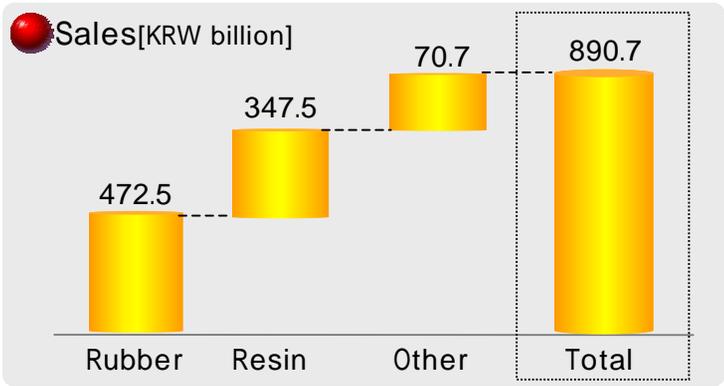
## Operating Income [Unit : KRW billion.]



	1H, 05	2H, 05	1H, 06	Growth[%]	
				Y-Y	H-H
Sales	840.4	868.9	890.7	6.0	2.5
Gross profit	117	129.1	118.4	1.2	8.3
[%]	13.9	14.9	13.3		
Operating Income	54.8	65.6	55.4	1.1	15.5
[%]	6.5	7.5	6.2		
Ordinary profit	89.6	70.3	92.3	3.0	31.3
Except equity method gains	36.2	33.5	29.2	19.3	12.8
Net profit	72.4	49.0	68.0	6.1	38.8
Equity method gains	53.5	36.9	63.1	17.9	71.0

# Income analysis

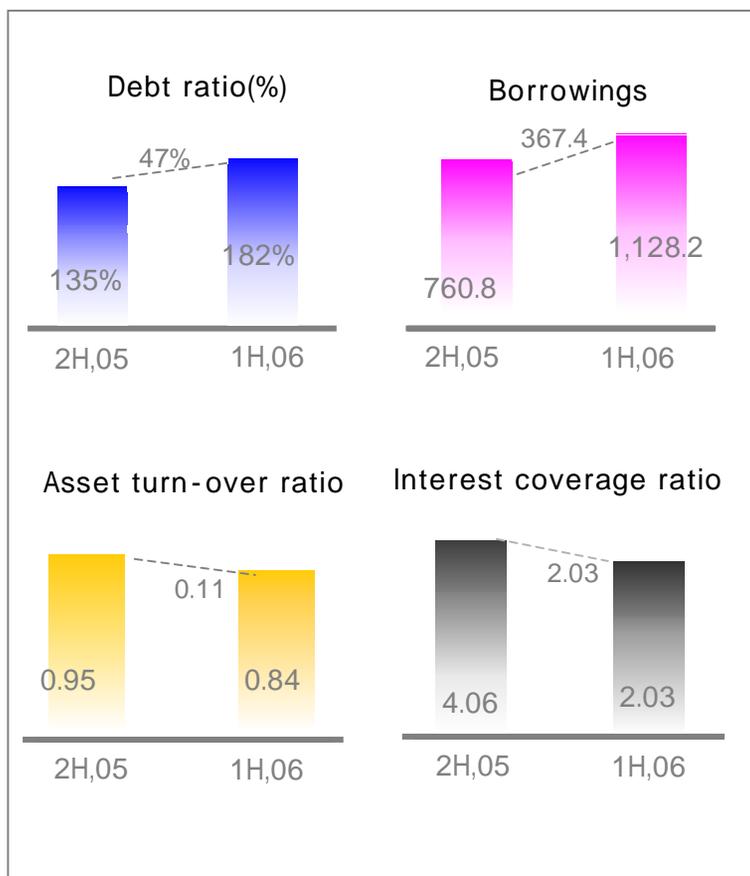
- Sales +2.5% H-H, +6.0% Y-Y
- Operating profit -15.5% H-H, +1.1% Y-Y



KRW billion	1H,05	2H,05	1H,06	Growth[%]	
				Y-Y	H-H
Sales	840.4	868.9	890.7	6.0	2.5
[Sy. Rubber]	442.4	454.2	472.5	6.8	4.0
[Sy. Resin]	324.2	345.5	347.5	7.2	0.6
[Other]	73.8	69.2	70.7	4.2	2.2
Op. margin	54.8	65.6	55.4	1.1	15.5
[Sy. Rubber]	48.0	43.2	32.4	32.5	25.0
[%]	10.8	9.5	6.9		
[Sy. Resin]	-12.0	-2.2	-1.0		
[%]	-3.7	-0.6	-0.3		
[Other]	18.8	24.6	24.0	27.7	2.4
[%]	25.5	35.5	33.9		

# Financial structure

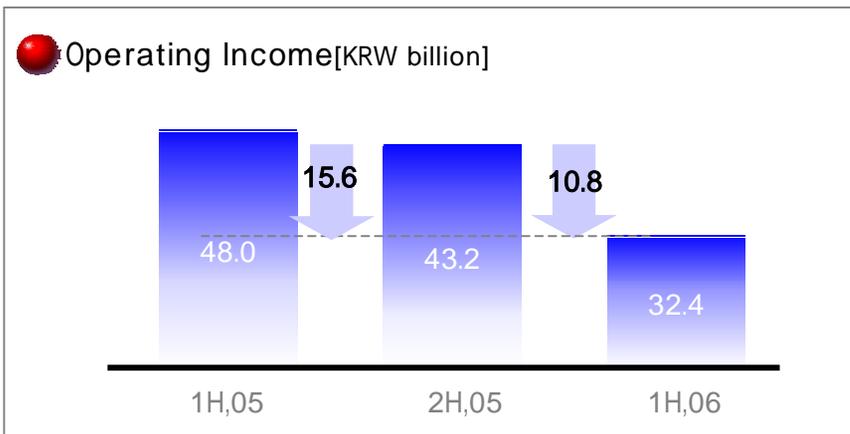
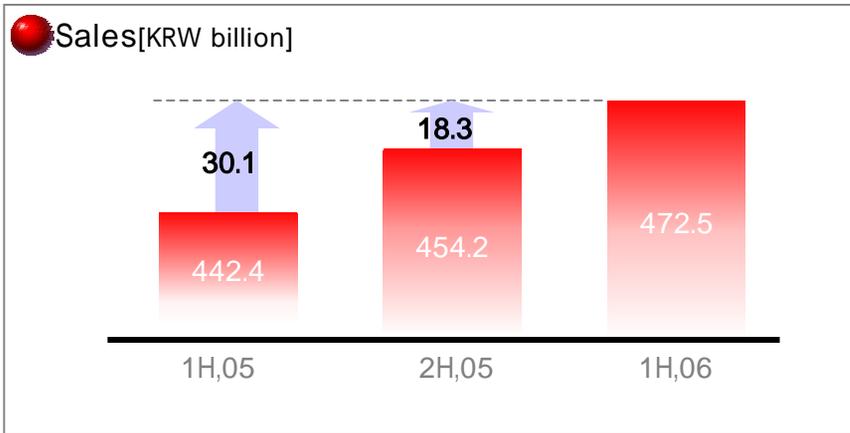
- Increase of liabilities 334.9 KRW billion, Debt ratio 47% H-H
- Increase of borrowings 367.4 KRW billion H-H, 551.6 KRW billion Y-Y



	Unit	1H,05	2H,05	1H,06	Change	
					Y-Y	H-H
Assets	Bil.	1,663.1	1,973.6	2,272.5	609.4	298.9
Liabilities	Bil.	882.8	1,133.1	1,468.0	585.2	334.9
Equity	Bil.	780.3	840.5	804.5	24.2	36.0
Debt ratio	%	113	135	182	69	47
Borrowings	Bil	576.6	760.8	1,128.2	551.6	367.4
Asset turn-over ratio		1.02	0.95	0.84	0.18	0.11
Interest coverage ratio		3.16	4.06	2.03	1.13	2.03

# Sector analysis – Synthetic Rubber

- Sales margin decreased due to BD price hike after 2Q 2006 BD contract already signed
- Sales cost increased due to the annual shut-down of Yeosu rubber factory
- Operation ratio of tire companies went down due to rising natural rubber price



- Regional gap of feedstock[BD] price widened [make it difficult to raise sales price of synthetic Rubber]
- BD Price[\$/Ton]

	02,06	03,06	04,06	05,06	06,06
Asia	1,171	1,299	1,305	1,353	1,353
U.S	1,036	1,014	1,014	1,058	1,102
EU	770	770	785	785	785

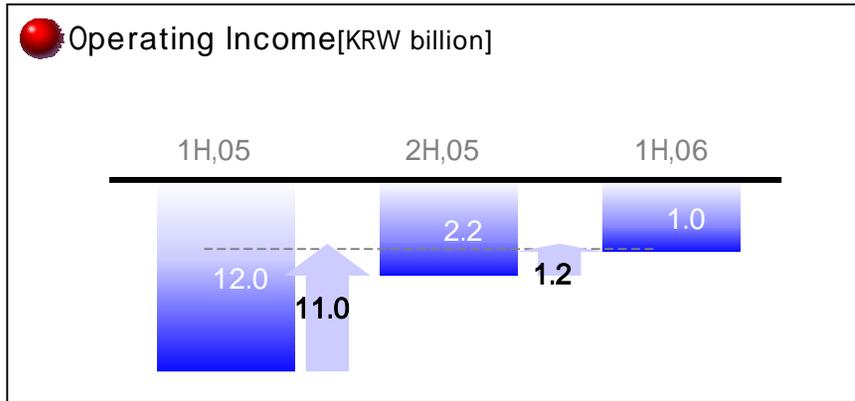
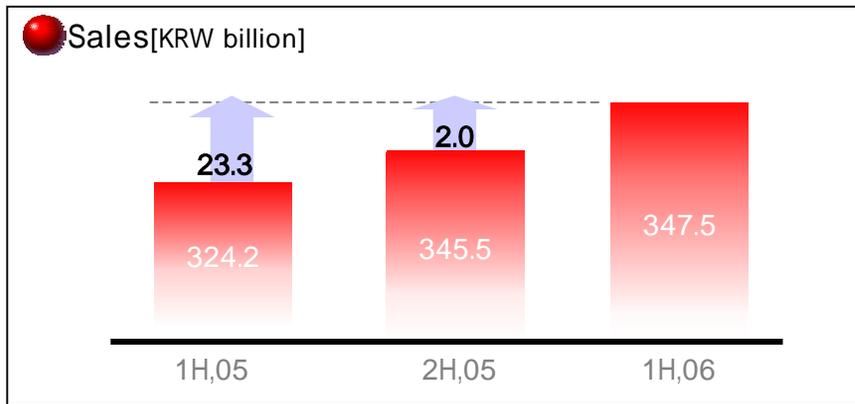
- Operating income decreased due to feedstock price hike and strong Korean currency, despite bustling sales in China
- Operation ratio of the companies went down due to rising natural rubber price[North America]

	02,06	03,06	04,06	05,06	06,06
Natural Rubber Price	2,088	2,065	2,165	2,655	2,725

\* 07,06 Natural Rubber Price : 2,408\$/Ton

# Sector analysis – Synthetic Resin

- Sales spread stabilized because feedstock price stabilized
  - Operating income improved by KRW 11.0 billion over the same period last year



- Sales increased by KRW 2.0 billion over previous half year due to upward stabilization of feedstock price
- Operating income improved by KRW 11.0 billion over the same period last year

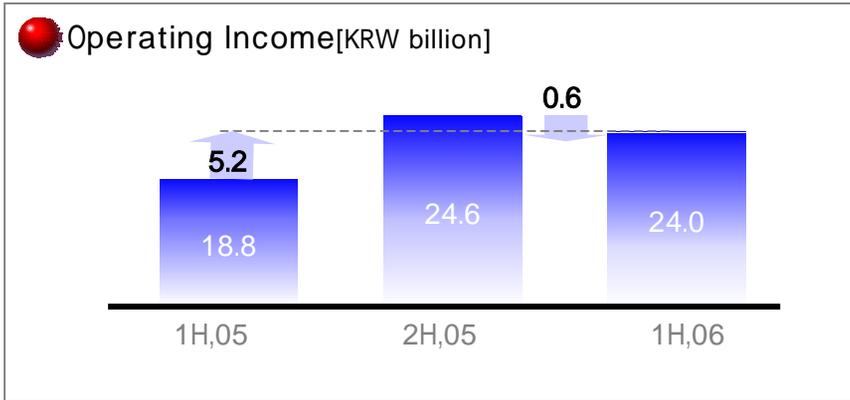
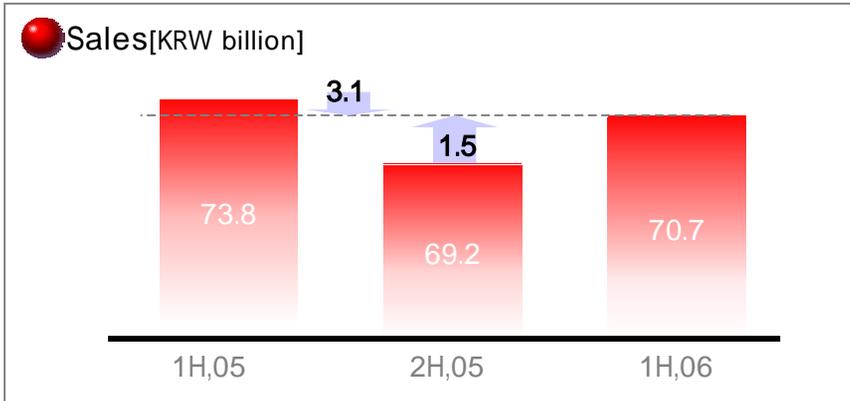
	02,06	03,06	04,06	05,06	06,06
SM Price	1,057	983	1,063	1,149	1,268

\* \$/Ton, CFR Taiwan

- Market situation
  - Electronics/Misc. : Production falters due to weak consumer confidence and worsening export profitability
  - Automobile : Production decreased due to partial strike
  - Dairy producers : Sales booming
- Expand the sales of high value-added product
  - Expand construction material business using ASA Product
  - Expand the sales of high heat-insulating EPS

# Sector analysis – Other divisions

- Operating income decreased due to annual shut-down in May, 2006[Combined Heat Power plant]
- Operating Income decreased due to sales restriction in North America caused by lawsuit with Flexsys and strong Korean currency



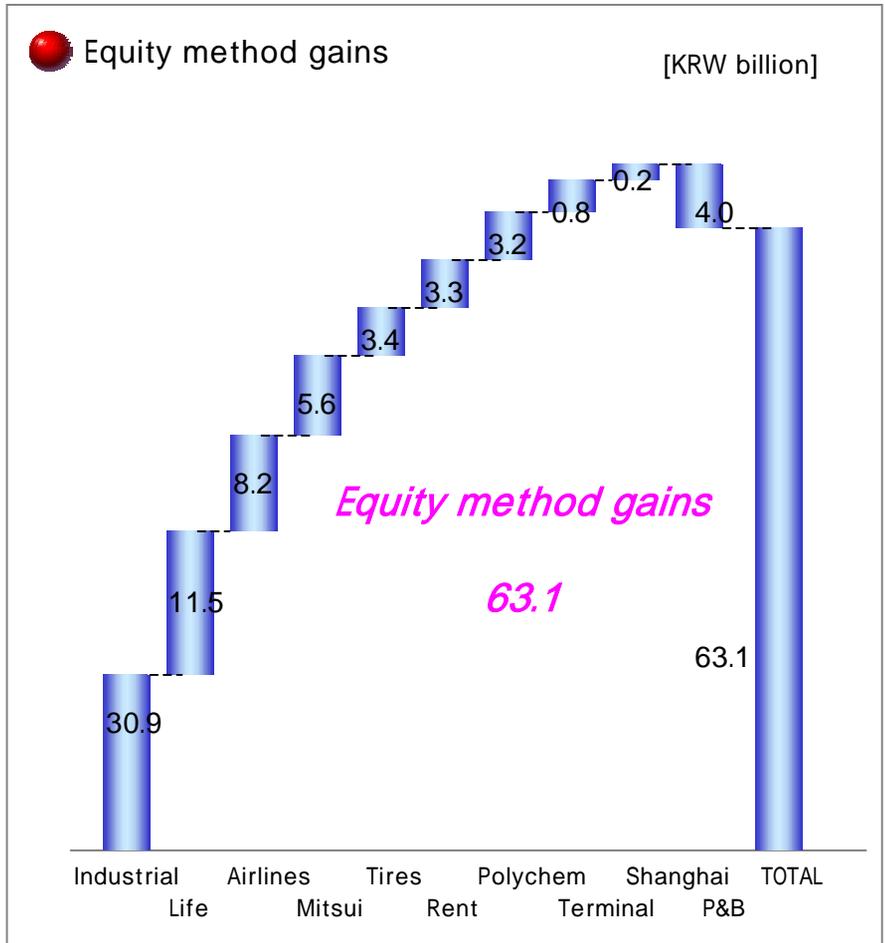
- Combined Heat Power Plant
  - Operating income decreased due to annual shut-down in May, 2006[for 13 days]
- Rubber Chemical Division
  - Sales increased, but sales price slightly decreased, [due to price competition among producers]
  - Sales in North America expected to increase because we finally won the lawsuit with Flexsys  
ITC decided in July, 2006 KKPC did not violate property right

# Equity method gains of Affiliated Companies

• Net profit 283.6 KRW billion & Equity method gains 631 KRW billion

**Net Profit** [KRW billion]

Affiliated Companies	Net Profit [1H,06]	Remark
Kumho Industrial	142.8	
Kumho Tires	17.6	
Asiana Airlines	52.9	
Kumho Polychem	6.3	
Kumho Mitsui	11.5	
Kumho P&B	6.7	
Kumho rent a car Co.	6.2	
Kumho Life Insurance	48.4	
Korea Intergrated Freight Terminal	4.2	
Kumho Shanghai	0.4	
<b>Total</b>	<b>283.6</b>	



# Main Achievement 1H, 2006

## Strengthening Market dominance

- Revamping of SBR, HBR, SBS
  - Expansion [Ton/Year]
    - SBR 28,000
    - HBR 11,000
    - SBS 10,000
  - Target launch 4Q, 2006
- Construction SBR
  - Expansion[Ton/Year] : 80,000
  - Target launch 2008



## Developing eco-friendly material and special grade

- Develop SBR containing low aromatic compound
  - Conventional SBR be replaced by 2010
- Develop HOT SBR
  - used as bounding material as well as Tire bead
  - more expensive than conventional SBR(200~300\$)
- Expand eco-friendly construction material business
  - Applied in the newly built apartment by Kumho E&C
- Increase the sales of high-heat-insulating EPS
  - increase sales to Kumkang panel/Greenpia

## Entry into related market

- PO/PPG/CS Production base foundation in China ]
  - Product capacity [Ton/Year]
    - PO 80,000, PPG 50,000, CS 100,000
  - Business form : J/V [KKPC 50%, GPRO 50%]
  - Location : Nanjing, China
  - Investment cost : USD 100 million

# 2006 Plans

## Changing market conditions

- Stable economic conditions
- Domestic demand in China expands
- Bullish outlooks for tires, automobiles and household electronics
- Natural rubber prices remain high
- High oil prices to prevail over next 2~3 years
- BD/SM supply expands

### Synthetic Rubber

- Strong demand in Asian market
- Tight supply conditions
- High synthetic rubber Price

### Synthetic resin

- Demand in China
- Price of main material[SM] to fall and Stabilize
- Stability returning to Product prices

### Other divisions

- Increasing sales and OP
- Tight supply/demand of rubber chemicals keep price buoyant

## Counter-Strategy

- Strengthening market position
- Nd-BR and SEBS capacity and Sales expansion
- Beefing up overseas network
- Targeting Asian market
- High-margin and high tech products
- targeting niche markets
- Continuous R&D investment
- Improving business mix
- Power plants using disposed tires
- expanding new rubber chemical production
- Expanding sales of electronic materials
- Samsung electronics, Hynix

# Key projects in 2006

## Earning growth

**High margin and high growth products**

Growth opportunity

SEBS      New EPS

- High Value-added products used for medical products and viscosity controllers for lubricants
  - USD 3,500/Ton, margin over 20%
  - Production 18,000 Ton/Year
- High insulation EPS production
  - Strong sales expected

## Eco-Friendly product development

**Eco-Friendly Product**

Expand operation in construction materials

- Eco-Friendly building materials market : PVC Alternatives

**Eco-Friendly materials Nd-BR**

- Eco-Friendly rubber material with high wear and thermal-resistance

**Eco-Friendly materials SBS**

- Asphalt modify material developed by Kumho petrochem.

# Key projects in 2006

## ● Entry into related market

- **PPS**
  - Heat resistant, high rigidity and high value-added engineering plastics
  - High value-added proprietary technology
  - Expected domestic demand : 2,600Tons
- **Insoluble Sulfur**
  - Tire vulcanizer
  - Production joint venture in China
- **Rubber chemicals**
  - Securing stable supply of 4-ADPA, the main source of rubber chemicals,
  - Expansion of Yeosu Plant[Licence of one's own]

## ● Entry into energy business

Power Plant using disposed tires

- Target launch 2H, 2008
- 23% more cost efficient than coal boilers



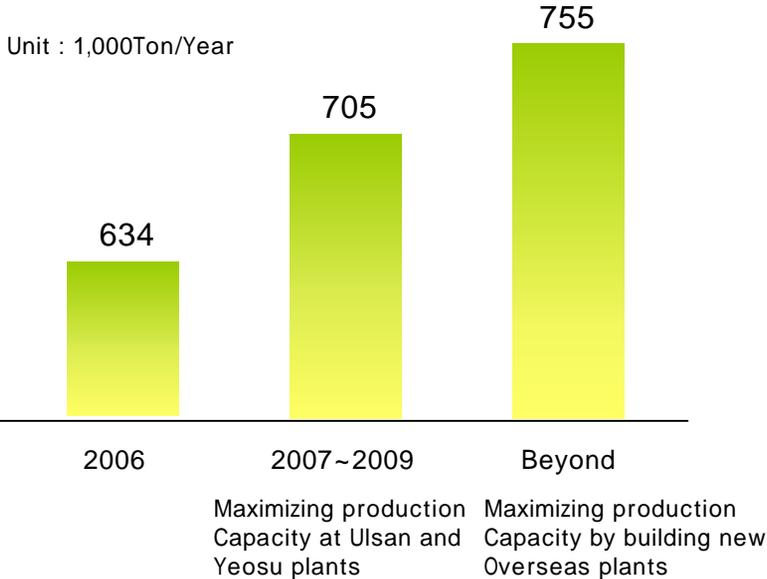
Overseas resources exploration

- Oil exploration in West Kamchatka, Russia / South karpovsky, Kazakhstan
- Coal mines in Russia and China
- Overseas power plants

# Competitiveness

## Strengthening market dominance[Synthetic Rubber]

- SBR/BR Plants in China and Vietman
- Expansion of production Capacity
- Move away from low margin products and get into high value-added products [SEBS, Nd-BR]



## Restructure of business portfolio

**Build future growth engine strengthen the stability of existing business**

- Pursue vertical integration
- Build production base in China
- To be more competitive by maximizing synergy
- Raise technology synergy
- Expand sales by entering new market
- Upgrade cost competitiveness

- Expansion of Fine Chemical Portfolio
  - Specialty Chemical in 2010 [Sales 400KRW billion]

- Expansion of related Markets
  - PPS/Insoluble sulfur

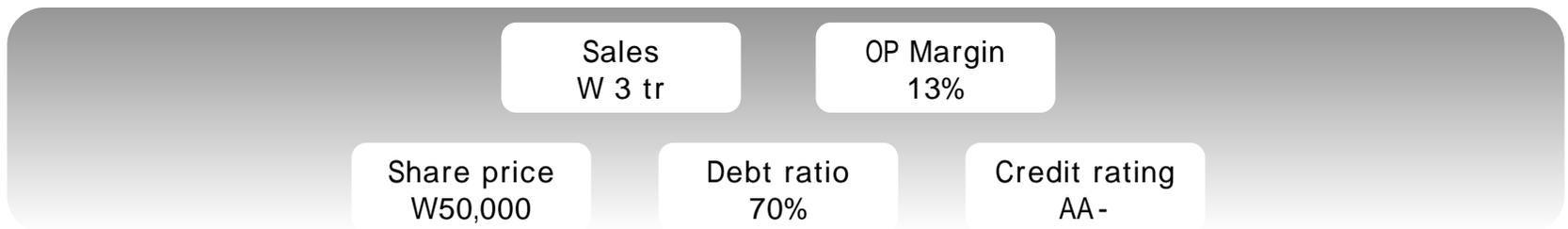
- Entry into New Material Market
  - Carbon nanofiber
  - Construction Material
  - New EPS Production

- Entry into energy business
  - Power Plant[TDF Boiler]
  - Oil exploration
  - Overseas power plants

# Long Term[2010] Vision

## Create top enterprise value in the industry

[Best operating profit margin among domestic petrochemical companies]



### Laying the foundations of a great company

**Strengthening Internal capabilities**

- Human Resources
- Financial structure
- Management

**Strengthening Market dominance**

- Competitive market position
- Market-leading products
- Operation and distribution

**Creating value**

- Energy business
- promising area
- peripheral businesses

Strategic management

Human resources Management

Ethical Management

Rational Management

Technological Management

# Income statement

## Income statement

Unit : KRW billion

	2005				2006	
	1Q	2Q	3Q	4Q	1Q	2Q
Sales	424.6	415.8	432.9	436.0	428.0	462.7
Gross profit	60.8	56.2	66.0	63.1	64.4	54.1
Selling & Administrative expenses	31.1	31.1	30.3	33.2	32.0	31.1
Operating Income	29.6	25.2	35.7	29.9	32.4	23.0
[%]	7.0	6.1	8.2	6.9	7.6	5.0
Non-operating income	43.3	22.9	8.9	34.5	49.7	47.2
Non-Operating expenses	16.4	15.1	18.7	19.9	32.2	27.8
Ordinary Income	56.5	33.0	25.9	44.5	49.9	42.4
[Except equity Method gains]	22.4	13.7	23.4	10.1	12.9	16.3
Net Profit	46.8	25.6	11.5	37.5	36.9	31.1

# Balance sheet

## Balance sheet

Unit : KRW billion

	2005				2006	
	1Q	2Q	3Q	4Q	1Q	2Q
Asset	1,629.6	1,663.1	1,795.9	1,973.6	2,083.4	2,272.5
Current	384.2	394.3	499.7	608.1	428.8	611.5
[Inventories]	179.1	184.1	201.0	206.9	203.2	183.6
Non-Current	1,245.4	1,268.8	1,296.2	1,365.5	1,654.6	1,661.0
[Tangible]	487.8	503.6	529.2	547.3	538.5	537.1
Liabilities	880.5	882.8	1,003.7	1,133.1	1,291.4	1,468.0
Current	457.9	457.5	497.6	539.6	723.9	951.2
Non-current	422.6	425.3	506.1	593.4	567.5	516.8
Equity	749.1	780.3	792.2	840.5	792.0	804.5
Stock	142.2	142.2	142.2	142.2	142.2	142.2
Retained earnings	184.1	209.2	221.1	258.0	270.1	303.9
Others	422.8	428.9	428.9	440.3	379.7	358.4

# Cash flow statement

## Cash flow statement

Unit : KRW billion

	2005				2006	
	1Q	2Q	3Q	4Q	1Q	2Q
Operating	2.1	45.3	29.1	35.8	12.2	56.6
Net profit	46.8	25.6	11.5	37.5	36.9	31.1
Depreciation/ severance benefits	16.1	15.8	16.0	19.1	18.7	18.8
Other	65.0	3.9	1.6	20.8	67.8	6.7
Investment	22.1	17.1	41.8	52.9	328.0	31.8
Tangible assets	12.7	30.7	39.8	36.1	7.5	15.9
Others	34.8	13.6	2.0	16.8	320.5	15.9
Financing	15.5	32.1	80.5	118.4	169.6	177.1
Debt	16.2	18.5	78.0	107.8	171.0	193.5
Treasury stock/ dividends		11.6		0		15.0
Others	0.7	2.0	2.5	10.6	1.4	1.4
Net cash flow	4.5	3.9	67.8	101.3	170.6	201.9

# Capacity

 Capacity

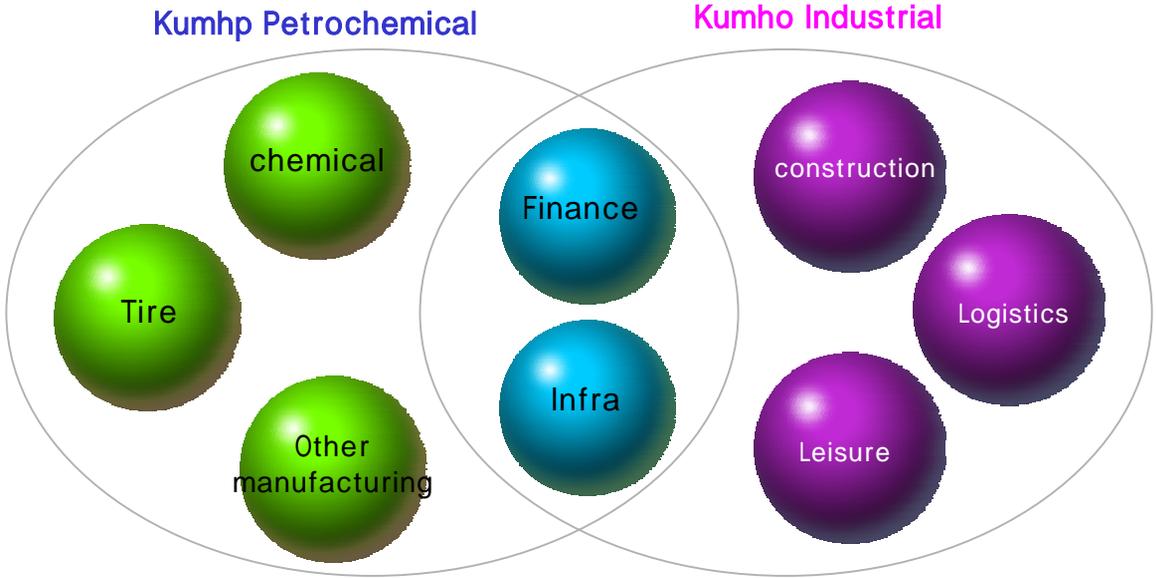
Unit : 1,000Ton

		1Q,2006	2Q,2006	Capacity	Remark
Synthetic Rubber	SBR	253		253	
	HSR	10		10	
	NBR	30		30	
	B R	206	5	211	
	SB Latex	70		70	
	TPE	60		60	
	TOTAL	629	5	634	
Synthetic resin	P S	228		228	
	ABS	220		220	
	EPS	74		74	
	PPG	54	3	57	
	TOTAL	576	3	579	
Rubber Chemical		26.2		26.2	

# Development of profitability & growth model by selection & concentration strategy

## Reorganizing business structure

- Establish dual holding company system
- develop profitability and growth model by selection & concentration strategy



- Simplification of ownership tree by reforming affinity affiliates in vertical order
- Establishment of responsibility management system based upon productivity and achievement